CHAPTER V

CLOSING

5.1 Conclusion

This study examines the effect of Islamic Corporate Governance proxied by Sharia Board Process (SBP), Sharia Board Competence (SBC), Sharia Board Independence (SBI), and Sharia Board Cross-Membership (SBCM), as well as Sharia Compliance as measured by the Islamic Income Ratio (IsIR), Profit Sharing Ratio (PSR), and Zakat Performance Ratio (ZPR) on fraud in Islamic commercial banks registered with the Financial Services Authority (OJK) Indonesia in the 2019-2023 period.

The results showed that SBP and SBC had a significant negative effect on fraud, which means that the more often Sharia Supervisory Board (DPS) meetings are held and the higher the competence of DPS members, the potential for fraud can be minimized. This finding is in line with the research of Anisykurlillah et al. (2020), Mediawati (2024), Grassa (2016), and Nomran and Haron (2019), but contrary to Oseit and Ntim (2011) and Alsartawi (2019). Conversely, SBI has a significant positive effect on fraud, indicating that an increase in the number of DPS members is actually associated with increased fraud risk, as supported by research by Mediawati (2024) and Quttainah and Almutairi (2017), but contrary to the findings of Anisykurlillah et al. (2020). Meanwhile, SBCM, IsIR, PSR, and ZPR have no significant effect on fraud, indicating that the aspects of cross-membership, the proportion of sharia-based income, the level of profit-sharing, and the performance of zakat do not have a substantial impact on the level of fraud in Islamic commercial banks. These results are consistent with studies conducted by

Anisykurlillah et al. (2020), Fadhistri and Triyanto (2019), and Suptriatna & Kamal (2022), but different from the research of Hamzah et al. (2020), Suptriatna & Kamal (2022), and Ramadhan et al. (2022).

Based on these findings, there are several strategic recommendations to mitigate the risk of fraud in Islamic banking in Indonesia. First, increasing the frequency and quality of DPS meetings is needed to strengthen the effectiveness of supervision and develop a more systematic and risk-based reporting mechanism. Second, strengthening DPS competence can be done through improving recruitment standards by considering academic qualifications and professional experience in the Islamic financial sector, as well as organizing ongoing training that focuses on fraud detection and prevention. Third, an evaluation of the number of DPS members needs to be carried out to ensure that an increase in the number does not have implications for increasing the risk of fraud, by implementing a stricter selection based on integrity, independence, and expertise. Fourth, the optimization of the supervisory mechanism for sharia compliance can be strengthened by improving the monitoring system of Islamic Income Ratio (IsIR), Profit Sharing Ratio (PSR), and Zakat Performance Ratio (ZPR), as well as developing a more comprehensive sharia-based audit system to improve the effectiveness of internal control. Fifth, increasing transparency and accountability is essential by encouraging information disclosure related to fraud mitigation policies, requiring more detailed sharia compliance reporting that is accessible to stakeholders, and strengthening external supervision. Finally, synergy with the Financial Services Authority (OJK) and related institutions needs to be strengthened in designing stricter regulations related to DPS supervision and implementation of anti-fraud mechanisms, as well as encouraging further research to evaluate the effectiveness of policies that have been implemented.

Overall, the results of this study make an important contribution in understanding the role of Islamic Corporate Governance and Sharia Compliance in reducing fraud in the Islamic banking industry. The implementation of the recommendations that have been prepared is expected to strengthen Islamic banking governance and reduce the risk of fraud, thereby increasing public confidence in the Islamic banking system in Indonesia.

5.2 Suggestions

Some recommendations that can be given are as follows:

1) Company

The Company is expected to report the annual report and GCG Self-Assessment in accordance with Bank Indonesia Circular Letter Number 15/15/DPNP regarding the Implementation of Good Corporate Governance for Commercial Banks.

2) Stakeholders

Investors are expected to encourage companies to increase the transparency of annual reports and Good Corporate Governance to improve Company performance and as a form of effort to reduce fraud that occurs.

3) Further Research

a) Future research could include a larger sample size and expand the scope to include other types of Islamic financial institutions, such as Islamic microfinance institutions, takaful (Islamic insurance), or Islamic investment banks. Additionally, including banks from different countries could provide a more comprehensive understanding of the impact of Islamic corporate governance and Sharia compliance on fraud.

b) Comparative studies between Islamic and conventional banks could provide valuable insights into the unique challenges and advantages of Islamic banking in preventing fraud. This could also help identify best practices that could be adopted by both types of banks

5.3 Limitations

1) The study focuses only on Islamic commercial banks registered with the Financial Services Authority (OJK) in Indonesia from 2019 to 2023. This limits the generalizability of the findings to other types of Islamic financial institutions or banks in different countries.
2) The research is conducted in the context of Indonesia, which has a unique cultural and regulatory environment for Islamic banking. The findings may not be applicable to Islamic banks in other regions with different cultural, legal, or economic contexts

5.4 Implications

The results of this study have several implications for various parties, especially in the Islamic banking sector and financial regulators.

a) Implications for Islamic Banking

Islamic Commercial Banks need to improve the quality of corporate governance disclosures and strengthen internal control systems to reduce the risk of fraud in financial and operational reporting. The stability of Islamic corporate governance is an important factor in maintaining transparency, accountability, and operational effectiveness of Islamic banks.

b) Implications for the Financial Services Authority (OJK)

OJK is expected to continue to update and tighten regulations that encourage an increase in the level of corporate governance disclosure in the Islamic banking sector. More comprehensive policies related to Islamic Good Corporate Governance (GCG) principles can help increase public confidence in the Islamic banking system.

c) Implications for the Islamic Finance Industry

Although the results show that sharia compliance does not have a significant influence on fraud prevention, it is still necessary to strengthen aspects of compliance with sharia principles. By ensuring consistent implementation, Islamic banks can be more effective in maintaining customer confidence and the stability of the Islamic financial industry as a whole.

d) Implications for Academics and Researchers

This study provides new insights into the relationship between Islamic corporate governance and sharia compliance on fraud in Islamic banks. The findings can serve as a basis for further research exploring other factors that contribute to maintaining the financial integrity of Islamic banks.